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Emeanulu , Linus Uche ; Harrison, Christian; Fletcher, Mary

Published in:
BAM2019 Conference Proceedings

Published: 05/09/2019

Document Version
Peer reviewed version

[Link to publication on the UWS Academic Portal](#)

Citation for published version (APA):

Emeanulu , L. U., Harrison, C., & Fletcher, M. (2019). An analysis of the relationship between operational risk management and knowledge management in improving small and medium enterprises (SMEs) performance in Nigeria. In *BAM2019 Conference Proceedings* [450] British Academy of Management.
<https://www.bam.ac.uk/bam2019-proceedings>

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An Analysis of the Relationship between Operational Risk Management and Knowledge Management in improving Small and Medium Enterprises (SMEs) Performance in Nigeria

Authors: Linus Uche Emeanulu

Dr Christian Harrison

Dr Mary Fletcher

Affiliation: University of the West of Scotland

Address correspondence to: Linus Uche Emeanulu, School of Business & Enterprise,
University of the West of Scotland, Paisley PA1 2BE, UK **E-mail:** macinfor20@gmail.com

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Abstract

This study examines operational risk management (ORM) and knowledge management (KM) in developing Nigerian SMEs. Risk management has been identified as one of the main tools that can be used to attain the basic needs of an enterprise. However, risk management is difficult to implement in the SME sector. Lack of managerial, leadership skills, infrastructure, technical expertise and financial ability are factors affecting its implementation (Jayathilake, 2012). In addition, poor access to finance, high interest rate, and inability to identify business opportunities are also confirmed as factors affecting SME performance. It is argued that appropriately used knowledge management capabilities can mitigate the operational risk of SMEs. This research therefore investigates the knowledge management and operational risk management of Nigerian SMEs using semi-structured interviews. This will identify approaches and ways in which Nigerian SMEs can improve and contribute to the economic growth of the country.

Conference Track: Risk and Crisis management

Word Count: 1779

1.0 Introduction

SMEs are the engine that controls the progress of a country's economic growth and have a strong impact on the sustainable development of a country (Ternugwa, 2012). SMEs contribute to employment opportunities, a better standard of living, sustainable development and eradication of poverty (Eniola, & Ektebang, 2014). This contribution is important to developing nations such as Nigeria, to provide employment, enhance technology, increasing indigenous entrepreneurship and output diversification (Gbandi & Amissah, 2014).

Empirical evidence show that SMEs are performing lower than anticipated in Nigeria, when compared to other developing countries, due to poor access to finance, policies, high interest rate, poor managerial and leadership skills, acquisition of advance strategies and inability to identify business opportunities (Oforegbunam, & Okorafor, 2010; Okpara, 2011; Osotimehin, et al., 2012; Ogbo, 2012; Uchenwamgbe, 2013). The positive impact of SMEs towards the growth of the economy cannot be overstated, but to benefit from this, Nigerian SME managers must have knowledge and be able to manage these risks.

Some have suggested that this problem can be addressed if the government grants a fund to SMEs to formulate a policy to guide the SME sector (Akingunola, 2011). Good policies and government funds, however, do not determine the effectiveness of enterprises. It is argued in this study that adequate control of events, uncertainty and operations by organisations is what would improve SME performance. These issues have not been addressed by previous research, which has tended to focus on the roles, problems and influence of SMEs to the economic growth of Nigeria. Therefore, to address this gap, this current research focuses on the management competence of SMEs in Nigeria in managing those risks. The lack of ability in this area has greatly diminished the range of different production and employment opportunities for SMEs in the country's economy (Ogbo, 2012). Specifically, the aim of this study is to investigate the extent to which Nigerian SMEs effectively manage operational risks factors, through knowledge management capability.

2.0. SMEs in Nigeria

The definition of SMEs varies from country to country, yet its definition is generally based on a number of employees and annual turn-over. The definition of SMEs in China is based on the industrial category, number of employees, annual income and total assets (Newman and Sheikh, 2012). In Canada, a small business is seen as an organisation with less than 100 paid workers (Storey, 2016). SMEs are defined in Nigeria by the Nigeria Association of Small and Medium Enterprise (NASME) as businesses having an aggregate cost of working capital between N1.2 to N200m with 11 to 300 workers (Ayanda, & Laraba, 2015; Gbandi, et al., 2014).

Nigerian SMEs are increasing in number but difficult to manage. They are faced with a range of risks including financial constraint, business cost and low management skills (Osotimehin, et al., 2012; Irefin, Adul-Azeez & Tijani, 2012). These problems obstruct the progress and development of SMEs in Nigeria. Moreover, the economic and political situation of the country has not given the opportunity for enterprises to succeed. To tackle these risks special knowledge needs to be developed continuously by SMEs managers as to have full familiarity with their business environment and be able to control issues concerning their business.

However, many Nigerian SME managers lack the knowledge to identify what they are supposed to do in order to manage risks. Most of them lack managerial and leadership skills to manage operational risks, and as a result they fail to identify vital information and techniques to manage their businesses. Hence, the firm manager should be strategically aware of

operational risk factors and provide adequate control for such risks. Hence, effective management capabilities towards this organisational activity would boost firm development (Desouza & Awazu, 2006).

2.1 Operational Risk in Nigeria SMEs

Operational risk is a risk or uncertainty allied with the operation of an enterprise. Therefore, management of these risks is imperative to all organisations especially within the SME sector, which is more exposed to risk. Operational risk is one of the main risks facing any enterprise. Thus, many enterprises have integrated enterprise risk management into business activities in which risk exposure is well understood and handled (Helbok, & Wagner, 2006). However, the duty of risk management tends to rest with the chief risk officer rather than the whole organisation. This research is concerned with operational risk management within SMEs in Nigeria, because the challenges identified in the literature are related to operational risk. An important example of this has been documented in the literature, that SMEs in Nigeria are faced with lack of financial support, poor management, low profit and lack of demand for products and services (Okpara, 2011; Uchenwamgbe, 2013; Oforegbunam & Okorafor, 2010). Therefore, when the operational risks of an organisation are properly controlled, a firm owner-manager should experience growth in business and will better understand the state of business activities.

Among the limited studies done so far in relation to Nigerian SME risk management, none has focused on operational risk. Most of the prior studies have examined business risk in general. For instance, risk management research conducted in Nigeria show that some enterprises do not keep good accounting records, have a low knowledge of risk management and insurance protection, making it difficult for them to recognise and control business risks (Iopev & Kwanum, 2012; Terungwa, 2012). These findings are arguably insufficient as a focus on operational risks which is the core of the problem would provide a more vivid picture and help improve SMEs performance. As a result of the gap identified, this research will examine in detail the effect of operational risk and provide recommendations on how risk can be controlled through the use of knowledge management.

2.2 Knowledge Management in Nigeria SMEs

Knowledge management has been defined as the systematic strategy to ensure total exploitation of the firm's knowledge-base, together with the potential employee's skills, abilities, thoughts, innovation and vision to generate more efficient and effective business activities (Geisler & Wickramasinghe, 2015). This present study specifically introduces knowledge management as the capability required to implement effective risk management of the enterprise (Fink & Ploder, 2009; Verbano & Venturini, 2013). Knowledge management is fundamental for the competitive advantage of an SME and its understanding can enable the organisation to identify where and what kind of knowledge they require (Ford & Chan, 2003). Knowledge management can also promote a culture where it is advantageous to learn, share, and create knowledge (Ford, et al., 1998).

It is argued that the success of SMEs is determined on proper management of their knowledge to make use of the deficiencies in traditional resources (Desouza & Awazu, 2006; Cerchione, Esposito & Spadaro, 2015). Studies have shown that proper capturing, storing and spreading of knowledge within organisations results in greater control of operational risk and improves productivity (Talebi, 2009). SMEs in Nigeria have been identified with many operational risk challenges affecting their business performance. Therefore, the use of knowledge management could assist them in developing effective managerial and leadership skills required to handle operational risk. Thus, there is a significant relationship between

knowledge management and performance of SMEs in Nigeria (Jabeen et al., 2014). Malkawi & Rumman (2016) argue that knowledge acquisition, sharing, application and protection improves product innovation in Nigeria. This could also provide the platform for technology innovation (Sarkindaji, Hashim & Abdullateef, 2014).

The use of available knowledge within an enterprise generates a strong organisation culture, which in turn leads to effective management of operational risks. Therefore, it can be suggested that organisational culture is directly associated with SMEs success and their performance is better when they incorporate knowledge management in their daily activities (Lekan, Kayode, & Morenikeji, 2015). Knowledge management contribution towards the performance of SMEs cannot be overemphasised. It is clear that knowledge management can effectively control business risk especially operational ones. As a result, this research will examine the relationship between operational risk management and knowledge management in enhancing SMEs performance.

3.0 Operational Risk management and knowledge management

Many scholars tend to separate the practice of risk management from knowledge management without acknowledging the managerial skills of the personnel useful in enhancing effectiveness (Tchanknova, 2002; Callahan, et al., 2017; Oliva, 2016; Luppino, 2014). According to Prokopenko et al. (2012), operational risk management validates and improves the quality and efficacy of the enterprise operations and the process of the risk management practice. Similarly, knowledge management develops the ability of the staff, through practical experience and knowledge sharing that promotes innovation and in turn, results to improve the organizational performance levels (Omotayo, 2015).

Empirically, studies have identified that knowledge management reduces operational risk. For example, Aihussaini & Karkouljian (2015) identified a significant relationship between knowledge management dimensions and the different operational dimensions. This study confirmed that knowledge management factors reduces operational risk aspects of the enterprise and suggested that management of enterprises should practise effective knowledge management to mitigate operational risk effect. Hence, the identification process of risk management is significant to the organisation through the impact of knowledge management (Ruzic-Dimitrijevic, 2014). Indeed, the success of knowledge management would rely on how its procedures are associated with the enterprise's structure and processes, in a way that supports the accomplishment of the firm's goals. Although extensive research has been carried out on risk management in SMEs, there is no rigorous study which examines the connection between operational risk management and knowledge management within the Nigerian context.

4.0 Further Development

This research is still in its early stages with a clear roadmap for its development. Nigeria SMEs have been selected as the research sample as they are important to the country's economic development. Considering the empirical evidence identified in the literature and discussed above, it is clear that SMEs in Nigeria are more exposed to business risk mostly operational risk. Therefore, this research would investigate the relationship between operational risk management and knowledge management. The survival of any SME relies on the ability of the management to control operational risk factors (Cerchione et al., 2015), hence, these can be addressed effectively through the use of knowledge management capability.

The research methodology will adopt an interpretivist philosophy, as the study will explore the individual's experience in the process of managing operational risk in the business. As this

study aims to understand the relationship between operational risk management and knowledge management in improving SMEs performance, an inductive approach will be employed. Data will be collected through semi-structured interviews. Then, the qualitative data collected would be analysed via thematic analysis through which new information can be developed in form of codes, themes and thematic maps (Braun et al., 2006) to provide a vivid conceptualisation of the phenomenon. It is expected that the findings of the study would be available and presented at the conference.

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